

Global Business and International Trade

The strategy of international business – part 2

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Outline of the lecture

- Cost pressures and pressures for local responsiveness
- Choosing a strategy

Cost pressures and pressures for local responsiveness

- Corporations face competitive pressures that place conflicting demands
- Cost reduction pressures push a firm into minimizing its unit costs
 - More universal goods/services
- Local responsiveness pressures push a firm into more differentiation of its products and marketing strategy, which can raise costs
 - More customized goods/services

Pressures for cost reductions

- How can a company reduce costs (of production)? Typically, by:
 - Economies of scale
 - Learning effect
 - Location economies
 - Outsourcing

Pressures for cost reductions

- They can be intense in case of products where meaningful differentiation is difficult – products that serve universal needs
 - Tastes and preferences of consumers in different countries are similar or identical
 - Commodity products – steel, petroleum, sugar
 - Industrial products – semiconductor chips, screens
 - Very typical in B2B
- Price remains the main competitive weapon

Pressures for local responsiveness

- Responding to pressures requires a firm to differentiate its products and marketing strategy from country to country or region to region
- That tends to raise costs

Pressures for local responsiveness

- Differences in tastes and preferences
 - When they differ significantly
 - Historical or cultural reasons
 - Globalization and transport costs have created conditions for convergence of tastes and preferences – There are some successful examples
 - However, these differences can't be ignored by any firm

Pressures for local responsiveness

- Differences in infrastructure and practices
 - They create a need to customize products
 - Different voltage
 - Driving on different sides

Pressures for local responsiveness

- Differences in distribution channels
 - Typical form of sale
 - Marketing practices

Pressures for local responsiveness

- Host-Government demands
 - Standards and norms
 - Pricing restrictions
 - Local content rules

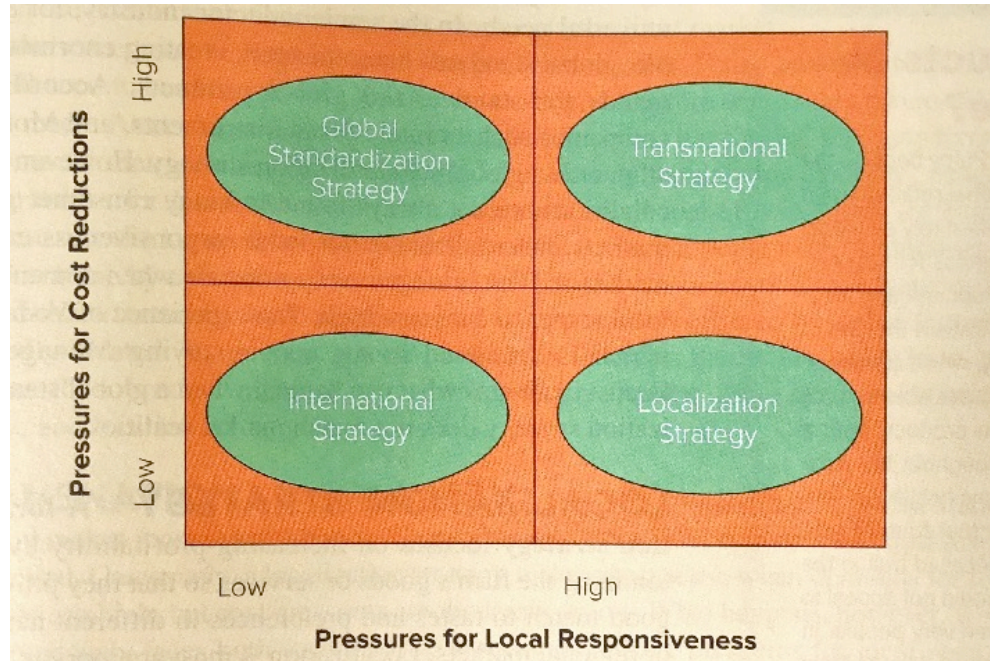
Pressures for local responsiveness

- The rise of regionalism
 - Convergence of previous issues in a broader region
 - Can be based on historical, cultural or institutional basis
 - This may lead to localization at the regional rather than national level

Choosing a strategy

- Pressures for local responsiveness make it hard for a firm to realize the full benefits of economies of scale, learning effect and location economies
- The need to customize products to local conditions may work against the implementation of a strategy with global marketplace, one production place and globally standardized product and marketing

Choosing a strategy



Source: HILL, Charles W. L. a HULT, G. Tomas M. *Global business today*. International student edition. New York: McGraw-Hill Education, [2018]

Choosing a strategy

- Global standardization strategy
 - Cost oriented strategy on a global scale
 - Production, marketing and R&D are concentrated in a few favorable locations (location economies)
 - Low or no level of customization → standardized product
 - Markets with strong cost reduction pressures and minimal demand for local responsiveness
 - B2B products, consumer electronics, automotive, F&B, furniture

Choosing a strategy

- Localization strategy
 - Increasing profitability by customizing the firm's products so that they provide good match to local tastes and preferences
 - When there are substantial differences across nations and cost pressures are not too intense
 - By customizing the firm increases value of its products
 - Cost reduction typical for global strategy is limited, but costs are still essential (as well as pricing)
 - F&B, media, print and books, luxury products

Choosing a strategy

- Transnational strategy
 - When experiencing pressures both in terms of costs and localization
 - Thus, paying attention to both, which is the most difficult task for MNCs today
 - Optimization of design, production and distribution of goods
 - And focusing on regions rather than individual countries
 - FMCG

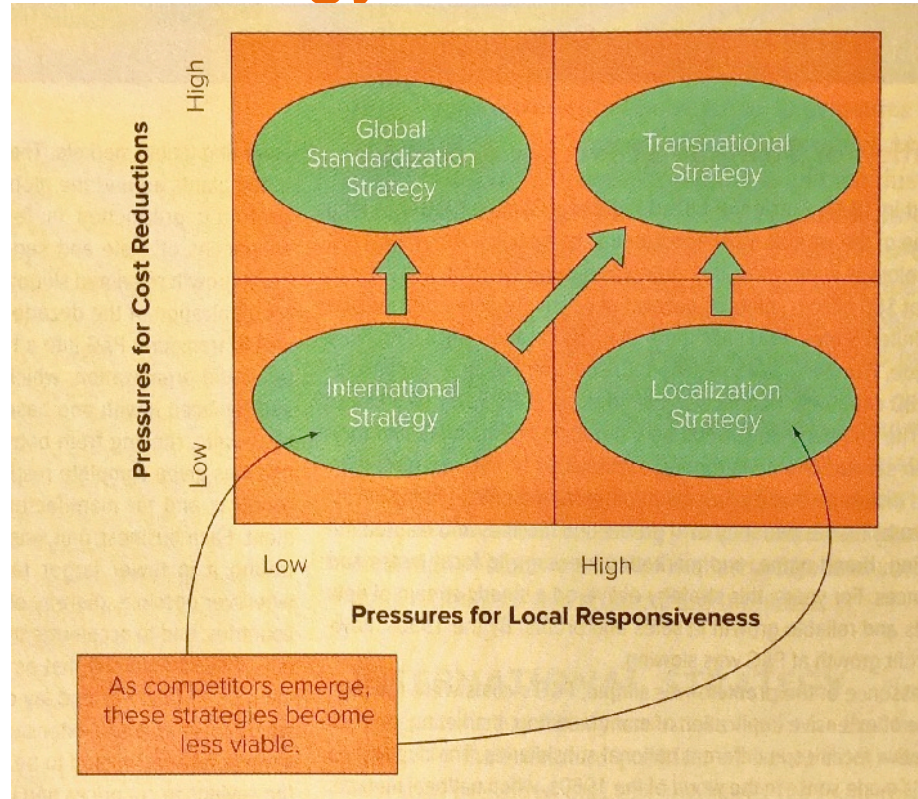
Choosing a strategy

- International strategy
 - Low pressures in terms of costs and localization needs (typically some sort of a universal need)
 - Very fortunate position
 - Competition is limited because of innovation, patents, unique product, etc. (competitors are one or more steps behind you)
 - R&D is typically centralized, while production and marketing is close to final markets
 - Xerox in 1960s

Evolution of strategy

- Emergence of efficient competitors means that international strategy may not be viable in long term
- Similar applies to localization strategy – sooner or later a firm will be with aggressive competitors

Evolution of strategy



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